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New Zealand

Agricultural Situation

Agribusiness Report July 2002

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Report Highlights: General: GE liability issue back with government. Livestock: Record low venison production. Horticulture: Record NZ grape harvest confirmed. Dairy: Fonterra announces first year loss of US$ 24 million. Fonterra reduces payout forecast to US$ 1.78 per kg milksolids. Fisheries: Government plans to bring tuna into quota management system.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Wellington [NZ1], NZ

GENERAL

Determination of GE liability back with NZ government

Despite earlier instructions from the NZ government to determine liability over potential accidents arising from the use of GMOs (genetically modified organisms), the NZ Law Commission has refused to take a stand on whether there needs to be a new legal liability regime. The Commission's report has rejected Government pressure to make a decision and instead emphasized that ethical and spiritual issues need to be considered and debated more widely. The Government wants the issue over who carries responsibility for losses resulting from the development, supply or use of GMOs resolved before the moratorium on the release of GMOs runs out in October 2003. Current laws, according to the Commission, will not ensure that all damage that could potentially be caused by GMOs will be compensated. The Commission recommended that the Government make three core policy decisions before a view on a liability plan could be formed. These are: 1) the extent to which GE organisms are different from other activities or technologies, either from a scientific or ethical view, 2) the extent to which those involved in GE should be held accountable for anything that went wrong, and 3) the government's potential role as guarantor of damage caused by GE. The Government has reluctantly accepted the view that this needs to be a government decision, but has rejected the need for public debate and expressed surprise at the view that cultural and ethical issues should be part of a liability consideration.

New Zealand to seek closer ties with EU

NZ trade authorities have suggested that in view of difficult and lengthy WTO negotiations on agriculture and the prospective enlargement of the EU, New Zealand should seek a "framework agreement" with the EU (as Australia has). This would provide the formal machinery through which New Zealand could enter into annual talks with the EU bureaucracy, in order to avert being "blocked out" by an increasing number of EU member countries.

GE technology needs to show benefits

According to a study just released by AgResearch, GE (Genetic Engineering) supporters need to show that GE research has benefits, instead of downplaying public fears, if they want to increase public support for GE. With a response rate of 56 percent, the survey-based study found that more people totally oppose GE than support it. Thirty-six percent totally oppose GE food and13.6 percent totally oppose GE-based medicines, compared with 3.4 percent supporting GE food and 15.6 percent supporting GE-based medicines. The study also identified a large middle group, which, depending on the circumstances, are likely to support GE food production (52 percent), and GE medical applications (62 percent). Acceptability appears to be dictated on a case-by-case basis, depending on the benefits GE technology provides in each case. The study further suggests that initially medical applications should be introduced followed by food products. Public acceptance will largely be driven by perceived benefits from the technology. However, the technology also needs to prove itself as save in relation to human, animal, and environmental health.

LIVESTOCK & PRODUCTS

Record low venison production & falling venison schedule

Venison production has slowed after setting a record last year. For the first six months of 2002, venison production was down 28 percent with a throughput of 168,000 animals, compared to 233,000 animals for the same period last year. Production for May and June was down 50 percent and 37 percent, respectively, on the same months last year, with June's production being a record low for any month in more than 10 years. Last year's production reached a record level of 504,000 deer due to strong demand for venison arising from European concerns over BSE and foot-and-mouth disease. Schedules at the time reached NZ$ 10.17 (US$ 4.27) per kg but have since dropped to NZ$ 5.29 (US$ 2.54) per kg, which is 17 percent behind the five year average for this time of the year.

The largest NZ venison exporter, PPCS, announced late in June contracts with a top price of NZ$ 7.15 (US$ 3.43) per kg for delivery in September. While the contract is above expectations it has come too late for weaner sales by private treaty which fell a further NZ$ 1 (US$ 0.48) per kg liveweight after formal sales were completed in late May. High venison stocks in Europe and the prospects that demand may remain weak may see production remain down for some time as farmers may decide to retain stock. Contributing to this is the fact that velvet prices remain stable and that a continued downward pressure is exerted on animal numbers available for slaughter due the continuation of farm conversions.

Export meat production update

Export meat production to July 6 (in brackets change compared with same time last season) has been as follows (animal numbers): lamb 23,538,108 (down 7.6 percent), hogget 5,914 (down 49.4 percent), mutton 3,681,170 (down 12.1 percent), steer 361,611 (down 17.8 percent), heifer 149,446 (up 3 percent), cow 607,863 (up 14.1 percent), bull 581,934 (up 0.1 percent), bobby veal 154,310 (up 62.3 percent), and goat 94,857 (down 8.1 percent).

HORTICULTURE & PRODUCTS

NZ grape harvest record confirmed but EU naming restrictions threaten export sales

The final figures for the 2002 grape harvest indicate a 67 percent increase in harvest volumes compared with 2001, reaching 118,700 MT. Nationally, the productive wine area had increased by 10 percent. However, not all regions in New Zealand reported gains. The Otago and Nelson regions were down 1.5 percent and 23 percent, respectively. Marlborough's volume was up 47 percent to 55,500 MT and the Hawkes Bay's volume was up 136 percent to 25,661 MT, together providing 91.5 percent of the national harvest. The Wellington-Wairarapa region, the biggest of the small wine areas, was up 39 percent and in the Auckland region harvest volumes were up 148 percent. The biggest change came in the yields for Sauvignon Blanc which was up 76 percent to 37,000 MT, Chardonnay was up 99 percent to 34,000 MT, Pinot Noir was up 30 percent to 10,400 MT, and Merlot was up 153 % to 6,500 MT. The quality of the harvest is considered very good but the final quality of the vintage will not be determined until 18 months from now. New Zealand Winegrowers expect wine exports to continue to grow in volume and value, but a decrease in the returns per liter is expected as a result of the strengthening New Zealand dollar.

Tighter EU labeling regulations and tougher rules on the use of placenames may affect NZ wine export sales as the EU is widening the definition of geographical indicators. As wine terms such as "oak-aged", "reserve", and "noble" are under threat, the NZ wine industry may have to prove to European regulators that approved European methods are used in the production of NZ wines. The rules will be financially detrimental in any case as New Zealand will have to comply with regulations or lose markets. In the year to April 2002, NZ exported wine worth NZ$ 375 million (US$ 157.5 million), of which wine worth NZ$ 130 million (US$ 54.6 million) was exported to the EU (up 24 percent on the previous year).

Kiwifruit exports update

According to Zespri, kiwifruit sales will be meeting their targets earlier this season, thanks to a strong start in all markets. The smaller than expected volumes available for export (down about 8 percent on last year's 65.9 million trays) has seen volumes diverted to stronger Asian markets this season. Zespri has achieved about 50 percent (6.28 million trays) of its target volume in Japan (12 million trays) supported by a NZ$ 15 million (US$ 7.2 million) advertising campaign in Japan and Asian markets. In Europe sales volumes have reached about 14.5 million trays and East Asia has reached approximately 5 million trays. By week 28 Zespri had sold about 42 percent of its total available crop this season. The strong start is partly due to Zespri's new Gold variety which has increased significantly in volume over the previous season's 5.1 million trays. In Europe Zespri has sold to date approximately 1.8 million trays, in Japan approximately 2.6 million trays, and East Asia approximately 1.2 million trays. The North American market is substantially lower in volume this season due to the lower NZ crop volume but prices are up 5.3 percent.

The future of italian kiwifruit

While Zespri's first full-scale attempt at using Italian-grown kiwifruit to ensure 12-month supply to key markets - a key element in Zespri's growth strategy - has resulted in a NZ$ 190,000 (US$ 79,800) loss last season, Zespri is confident that the current and future seasons will be successful. Within the next three years Zespri hopes to market 90 million trays, of which fruit from international locations should make up 10 million. Zespri's focus is on developing long-term partnerships with Italian and Californian growers to produce high quality green and gold kiwifruit. The challenge for Zespri in these partnerships is to balance the large scale production approach of local growers with Zespri's niche approach to the top-shelf supermarket trade. Zespri predicts that this may take some time.

Consortium gaining preliminary approval for irradiation plant

The Australia New Zealand Food Authority has given preliminary approval to Turners & Growers, Enza, and Surebeam (California) to build a food irradiation plant in Queensland and in New Zealand, after applying for approval last year. Surebeam applied in May last year to irradiate 9 types of Queensland tropical fruit to destroy pests. A NZ$ 10 million (US$ 4.8 million) plant is planned for Queensland, but a similar plant for New Zealand is also being considered by the three companies. The Authority is still awaiting public submissions for the proposal until August 10. The irradiation of fruit would make them suitable for export markets in the U.S. (and New Zealand).

DAIRY

Fonterra announces NZ$ 50 million first year loss

According to Dairy Farmers of New Zealand, Fonterra's reported loss of NZ$ 50 million (US$ 24 million) for its first financial year since the merger of the NZ dairy industry occurred because Fonterra is paying out money that farmers have not earned. Fonterra indicated that last season's payout of NZ$ 5.30 (US$ 2.54) per kg milksolids has been under pressure due to falling commodity prices, but it decided to take the loss rather than reduce the payout retrospectively. This means that the average-sized dairy operation will be overpaid by about NZ$ 3,000 (US$ 1,440). While Fonterra could have revised this season's payout down to NZ$ 5.28 (US$ 2.53) per kg milksolids it decided against doing so as it considered the loss immaterial relative to its NZ$ 4.4 billion (US$ 2.11 billion) in equity and NZ$ 13.9 billion (US$ 6.67 billion) turnover.

Fonterra revises 2002/2003 payout forecast down to NZ$ 3.70 (US$ 1.78) per kg milksolids

Fonterra announced that its forecast of NZ$ 4 (US$ 1.92) kg milksolids two months ago relied on a recovery in commodity prices near the end of this year, which are now threatened to be further reduced as restitution payments to subsidize dairy exports have been increased again by the European Commission (Dairy commodity prices had effectively halved over the past 12 month), and an exchange rate of NZ$ 2.22 per 1 US$. However, the higher long term exchange rate is now forecast by many economists at approximately NZ$ 2 per 1 US$. The payout reduction will reduce total payout by about NZ$ 334 million (US$ 160.3 million) reducing dairy farmers incomes by an average NZ$ 40,000 (US$ 19,200).

Fonterra plans to sell organic dairy products

Fonterra plans to market organic products by September 2002 as retail surveys are showing considerable growth in the organics category. Initially Fonterra will target the domestic and Australian markets with organic cheddar cheeses, while keeping an eye on other lucrative markets as it will be building capacity in supplying organic milk. Over the next few season's Fonterra will be supplied by approximately 50 organic dairy farms producing 17 million liters of milk. (Please also refer to the GAIN report concurrently released "New Zealand Organic Products Situation and Outlook 2002)

Westland Co-operative Dairy Company Limited renamed Westland Milk Products

Westland Co-operative Dairy Company Limited, one of the two independent dairy companies in New Zealand, has changed its name to Westland Milk Products. With the name change comes a move from being a producer of butter and milk powder to a manufacturer of value-added products. The company has recently completed a new NZ$ 60 million (US$ 25.2 million) milk drier and is building a new NZ$ 2 million (US$ 0.96 million) quality control and product research laboratory. Last season Westland produced 32,000 MT of milk powder, 20,000 MT of butter, and some casein and milk protein concentrates. Its consistently higher payouts than the industry average have been attributed to a lower percentage of downgraded product. Westland has 370 supplying farms with 8 new ones coming on stream and collects 338 million liters of milk which is forecast to increase by 6 percent in the 2002-03 season.

FORESTRY

Japanese Juken Nissho buys Nuhaka forest land

Japanese forestry company Juken Nissho has bought nearly 2000 hectares of Gisborne forest owned by Nuhaka Farm Forestry Fund, for a yet unknown price. The sale includes 133.4 hectares of trees planted last year, but Nuhaka will retain ownership of existing trees and the rights to harvest them in the next 10 to 12 years. Agent Perpetual Trust said the trust had sold the land to avoid the cost of replanting required under the Resource Management Act.

New forestry investments planned by Malaysian Samling Group

A NZ$ 100 million (US$ 48 million) wood processing plant, twice the size of New Zealand's biggest, is to be built at Gisborne. Hikurangi Forest Farms, owned by the Malaysian company Samling Group, had committed itself to the sawmill after agreements with the Government and local authorities. With a capacity of about 700,000 MT of logs per year the sawmill will produce different types of sawn timber for the high end of the market. This compares to a capacity of 200,000 MT of the neighboring Juken Nissho plant. Samling Group bought Hikurangi Forest Farms from Fletcher Challenge Forests in May 1997 for NZ$ 210 million (US$ 136.5 million).

Forestry owners oppose nationalization of carbon credits

The Government's plan to nationalize carbon credits – accrued under the Kyoto Protocol the Government intends to ratify in September – is facing tough opposition from forestry owners, who argue that they should be credited and not the government. The forestry industry objects to the government nationalizing approximately NZ$ 1.5 billion (US$ 0.72 billion) from carbon credits and instead wants to use it for industry R&D. The Government now considers giving farmers growing native trees access to carbon credits they create, provided they do not cut trees down. Forest owners who intend to mill trees will not get credits for at least the first ratification period in 2012, when New Zealand has to reduce its emissions to 1990 levels. This has not appeased forest owners, though, who continue to argue that they should be the owners of the credits. They suggest a scheme similar to countries that are considering "a carbon farming industry" such as in Western Australia and the U.S. where landowners would be paid to grow trees as carbon sinks for private industry.

FISHERIES

Government plans to bring tuna into quota management system

Tuna fishermen are rallying to fight the government's intention to bring several large tuna species into the quota management system (QMS) by October 2004. Fish that are currently included in the QMS reside in New Zealand waters, however, tuna migrates over thousands of miles of ocean passing through several economic zones. Reportedly, New Zealand would be the only country adding tuna species into the QMS, whereas other countries try in fact to increase their catch so they can claim a larger quota as international catch limits are imposed. The government's move would make it difficult for smaller operators to survive as under the QMS rules they also have to get a quota allowance for the inevitable by-catch. The quota for tuna would be awarded on the basis of catch history. The Ministry of Fisheries will put out a consultation document, which among other issues will consider New Zealand's international obligations as well as New Zealand's interests. However, the industry does not rule out legal action if the government should proceed with its plans after the consultation phase.